

ADAMS TOWNSHIP SCHOOL DISTRICT
PAINESDALE, MICHIGAN

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

June 30, 2008

ADAMS TOWNSHIP SCHOOL DISTRICT

JUNE 30, 2008

ADMINISTRATION

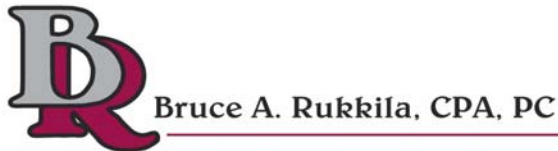
| | |
|-----------------------------|------------|
| Superintendent | Pat Rozich |
| High School Principal | Tim Keteri |
| Elementary Principal | Kim Harris |

BOARD OF EDUCATION

| | |
|----------------------|------------------|
| President | Marti Rashleigh |
| Vice President | Barbara Ruotsala |
| Treasurer | Scott Manninen |
| Secretary | Darren Niemi |
| Trustee | Gina Goudge |
| Trustee | John Pastore |
| Trustee | Peter Wesa |

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| INDEPENDENT AUDITOR'S REPORT | 4 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 6 |
| BASIC FINANCIAL STATEMENTS: | |
| <u>District-wide Financial Statements:</u> | |
| Statement of Net Assets | 13 |
| Statement of Activities | 14 |
| <u>Fund Financial Statements:</u> | |
| Governmental Funds: | |
| Balance Sheet | 15 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances | 16 |
| Fiduciary Funds - Statement of Fiduciary Net Assets | 17 |
| NOTES TO FINANCIAL STATEMENTS | 18 |
| REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION | |
| Budgetary Comparison Schedule - General Fund | 32 |
| OTHER SUPPLEMENTAL FINANCIAL INFORMATION | |
| <u>Major Governmental Funds</u> | |
| General Fund - Schedules of Revenue, Expenditures, and Changes in Fund Balances | 34 |
| Debt Service Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances | 37 |
| <u>Non-Major Governmental Funds</u> | |
| Combining Balance Sheets | 38 |
| Combining Statements of Revenues, Expenditures, and Changes in Fund Balances | 39 |
| School Food Service Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances | 40 |
| Athletic Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances | 41 |
| Capital Projects Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances | 42 |
| <u>Fiduciary Funds</u> | |
| Trust and Agency Fund - Statement of Changes in Assets and Liabilities | 43 |
| Scholarship Fund - Statement of Changes in Assets and Liabilities | 44 |
| Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 45 |



310 Sheldon Avenue • Houghton MI 49931
(906) 482-6601 • Fax: (906) 482-9046
e-mail: help@brucerukkila.com
www.brukerukkila.com



INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Adams Township School District
Painesdale, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Adams Township School District as of and for the year then ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Adams Township School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Adams Township School District as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 12, 2008 on our consideration of the Adams Township School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 6 through 12 and 32, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Adams Township School District's basic financial statements. The additional information on pages 34 to 44 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

November 12, 2008

Adams Township School District
Management's Discussion and Analysis
June 30, 2008

This section of Adams Township School District's annual financial report presents management's discussion and analysis of the District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the District's financial statements, which immediately follows this section.

Overview of the Financial Statements

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

Statement of Net Assets and the Statement of Activities

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District's net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- The Statement of Fiduciary Net Assets, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

- **Overview of the Financial Statements - Continued**

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Fund, Capital Projects Fund, School Food Service, and Athletics funds.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund and Debt Service Fund meet this requirement

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information on the General Fund.
- Other supplementary information provides detailed information about the General, Debt Service, Capital Projects Fund, School Food Service and Athletic Funds.

Adams Township School District
Management's Discussion and Analysis
June 30, 2008

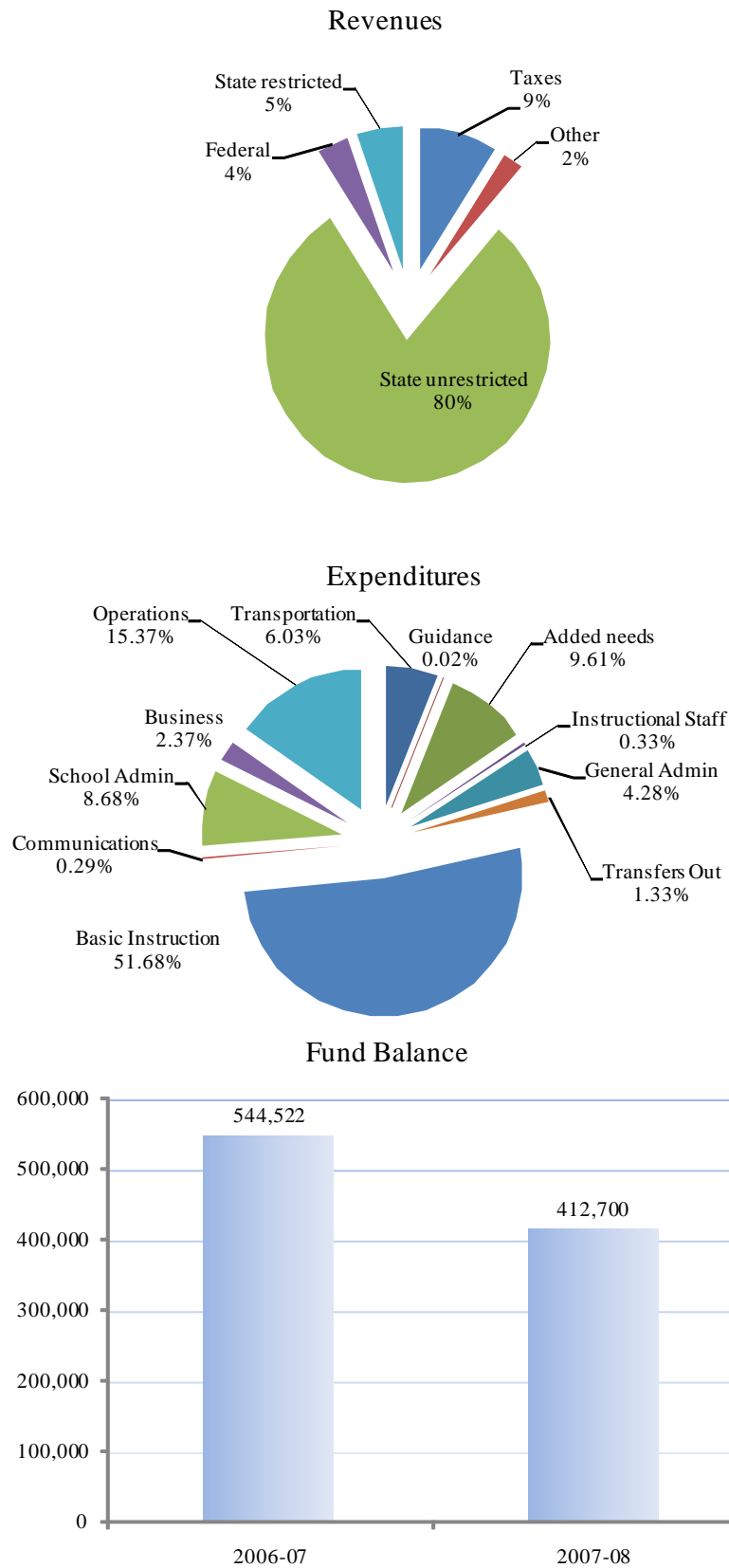
Summary of Net Assets

| | 2008 | 2007 |
|--|---------------------|---------------------|
| Assets | | |
| Current and other assets | \$ 851,995 | \$ 1,096,294 |
| Restricted cash | 167,931 | 74,458 |
| Restricted investments | 1,022,272 | 857,209 |
| Capital assets - Net of accumulated depreciation | 6,040,806 | 6,167,061 |
| Total Assets | <u>\$ 8,083,004</u> | <u>\$ 8,195,022</u> |
| Liabilities | | |
| Current liabilities | \$ 595,731 | \$ 1,000,298 |
| Long-term liabilities | 7,471,758 | 7,120,664 |
| Total Liabilities | <u>8,067,489</u> | <u>8,120,962</u> |
| Net Assets | | |
| Invested in property and equipment - net of related debt | (1,451,951) | (1,364,187) |
| Restricted | 1,182,004 | 1,007,077 |
| Reserved | 41,259 | 40,349 |
| Unrestricted | 244,203 | 390,821 |
| Total net assets | <u>15,515</u> | <u>74,060</u> |
| Total Liabilities and Net Assets | <u>\$ 8,083,004</u> | <u>\$ 8,195,022</u> |

Results of Operations in Governmental Activities

| | 2008 | 2007 |
|----------------------------|------------------|------------------|
| Program Revenue: | | |
| Charges for services | \$ 58,227 | \$ 61,984 |
| Grants and contributions | 470,586 | 438,913 |
| General Revenue: | | |
| Property taxes | 739,780 | 765,419 |
| State foundation allowance | 2,728,066 | 2,723,211 |
| Other | 99,330 | 72,443 |
| Total Revenue | <u>4,095,989</u> | <u>4,061,970</u> |
| Functions/Program Expenses | | |
| Instruction | 2,320,441 | 2,212,195 |
| Support services | 1,274,001 | 1,228,098 |
| School food services | 206,660 | 178,596 |
| Athletics | 57,259 | 38,444 |
| Interest on long-term debt | 226,838 | 220,298 |
| Other debt | 69,335 | 189,447 |
| Total Expenses | <u>4,154,534</u> | <u>4,067,078</u> |
| Change in Net Assets | (58,545) | (5,108) |
| Net Assets - Beginning | <u>74,060</u> | <u>79,168</u> |
| Net Assets - Ending | <u>\$ 15,515</u> | <u>\$ 74,060</u> |

The following charts highlight the District's General Fund activities:



Adams Township School District
Management's Discussion and Analysis
June 30, 2008

Significant Transactions and Changes in Individual Funds

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

| | <u>Current Year</u> | <u>Prior Year</u> | <u>Change</u> |
|---------------------------|---------------------|-------------------|---------------|
| General Fund: | | | |
| Revenues/Transfers | \$ 3,464,598 | \$ 3,395,459 | \$ 69,139 |
| Expenditures/Transfers | \$ 3,596,420 | \$ 3,369,911 | \$ 226,509 |
| Fund Balance | \$ 412,700 | \$ 544,522 | \$ (131,822) |
| Debt Service Fund: | | | |
| Revenues/Transfers | \$ 497,380 | \$ 641,420 | \$ (144,040) |
| Expenditures/Transfers | \$ 322,453 | \$ 342,983 | \$ (20,530) |
| Fund Balance | \$ 1,182,004 | \$ 1,007,077 | \$ 174,927 |
| Capital Projects Fund: | | | |
| Revenues/Transfers | \$ 892 | \$ 1,188 | \$ (296) |
| Expenditures/Transfers | \$ 0 | \$ 0 | \$ 0 |
| Fund Balance | \$ 18,645 | \$ 17,753 | \$ 892 |
| School Food Service Fund: | | | |
| Revenues/Transfers | \$ 203,579 | \$ 189,704 | \$ 13,875 |
| Expenditures/Transfers | \$ 206,660 | \$ 178,596 | \$ 28,064 |
| Fund Balance | \$ 32,759 | \$ 35,840 | \$ (3,081) |
| Athletic Fund: | | | |
| Revenues/Transfers | \$ 39,707 | \$ 40,952 | \$ (1,245) |
| Expenditures/Transfers | \$ 52,904 | \$ 37,051 | \$ 15,853 |
| Fund Balance | \$ 6,983 | \$ 20,180 | \$ (13,197) |

General Fund - The District's overall revenues had an increase in the amount of \$11,881. Loan proceeds for technology improvements is the major change from prior year in the amount of \$54,058.

Debt Service Fund - The Debt Service Fund collects property taxes and receives interest earnings on bank deposits to finance the payment of interest and principal on bond issue-related debt of the District. This year the District borrowed \$24,569 from the School Bond Loan Fund in order to make the interest and principal payments.

Capital Projects Fund - The Capital Projects Fund is used for the purpose of setting aside money from the General Fund for future building repairs/improvements, and technology updates. By doing this, when a major capital purchase is needed, all the money does not have to come out of the General Fund at one time.

School Food Service Fund - The Food Service program for the District has required operating transfers from the General Fund in recent years. This year the transfer totals \$4,670.

Athletic Fund - The Athletic Fund is supported primarily by operating transfers from the General Fund. This fund also collects revenues in the form of gate receipts. The transfer from General Fund for this year totaled \$235. The District has required fund-raising to be performed for each sport to assist in the in the amount needed from the General Fund.

Adams Township School District
Management's Discussion and Analysis
June 30, 2008

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the annual budget prior to the start of the fiscal year on July 1. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the fiscal year ended June 30, 2008, the original budget was adopted on June 12, 2007. Since the original budget is adopted two months before the District is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. Therefore, the District amended its budget twice during the fiscal year.

| | Original Budget | Final Budget | Actual | Variance with final budget | % Variance |
|--------------------------------|---------------------|---------------------|---------------------|----------------------------------|---------------|
| Revenues | <u>\$ 3,419,651</u> | <u>\$ 3,416,973</u> | <u>\$ 3,407,340</u> | <u>\$ (9,633)</u> | -0.3% |
| Expenditures | | | | | |
| Instruction | \$ 2,086,395 | \$ 2,079,232 | \$ 2,169,367 | \$ (90,135) | -4.2% |
| Supporting services | 1,364,316 | 1,275,155 | 1,322,642 | (47,487) | -3.6% |
| Total expenditures | <u>\$ 3,450,711</u> | <u>\$ 3,354,387</u> | <u>\$ 3,492,009</u> | <u>\$ (137,622)</u> | |
| Other financing sources (uses) | <u>\$ (130,186)</u> | <u>\$ (160,355)</u> | <u>\$ (47,153)</u> | <u>\$ (113,202)</u> | 240% |

The variance between the final budget and actual were minimal for revenues. Budget amendments did not take into account the accrual of salaries and benefits for instructional staff. The expenditures for operations and maintenance and communications services were higher than expected.

Capital Assets and Debt Administration

Capital Assets: The District's net investment in capital assets decreased by \$126,256 during the fiscal year. The decrease was due to depreciation in the amount of \$181,220 off set by the addition of technology improvements in the amount of \$54,965.

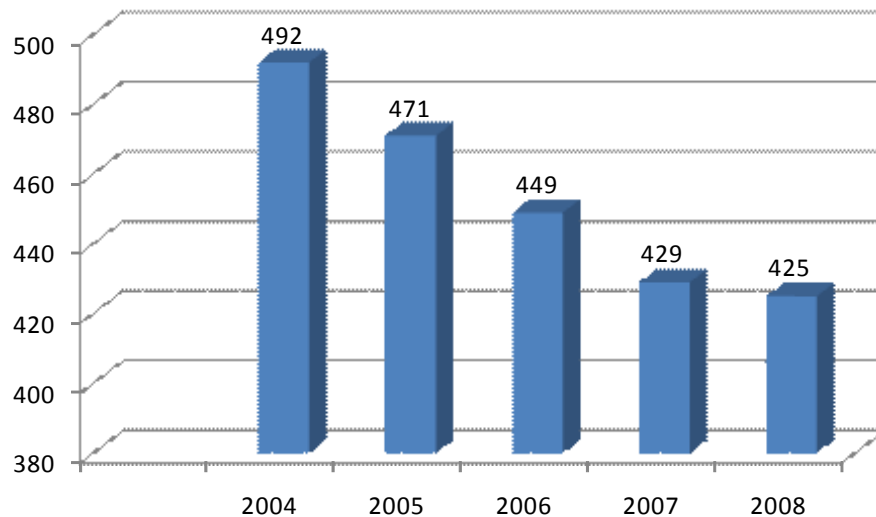
Additional information on the District's capital assets can be found on a page 24 of this report.

Long-term Debt: At the end of the current fiscal year, the District's total long term debt was \$8,407,937. This total amount is backed by the full faith and credit of the District. The District's total debt was decreased by \$123,748 during the fiscal year. The School Bond Loan Fund's accrued interest was increased by \$70,849.

Additional information on the District's long-term debt can be found on a page 26 of this report.

Known Facts, Decisions, or Conditions Having Significant Effect on Future Operations

The graph depicts decline of 4 students enrolled from the previous year, using the State Aid Membership Count.



Our elected officials and administration consider many factors when setting the District's fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil.

Approximately eighty percent of total General Fund revenues are from the foundation allowance. Under State law, the District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Each year the district is forced to borrow money against projected State Aid to meet payroll needs during the months of August and September. The District borrowed \$475,000 for the 2007-08 school year.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Adams Township School District.

ADAMS TOWNSHIP SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2008

| | |
|--|----------------------------|
| | Governmental Activities |
| ASSETS: | |
| CURRENT ASSETS: | |
| Cash and cash equivalents | \$ 212,193 |
| Taxes receivable | 54,282 |
| Accounts receivable | 1,915 |
| Inventory | 3,651 |
| Due from other governmental units | 579,954 |
| TOTAL CURRENT ASSETS | <u>851,995</u> |
| NON-CURRENT ASSETS: | |
| Restricted cash | 167,931 |
| Restricted investments | 1,022,272 |
| Capital assets | 7,678,791 |
| Less: Accumulated depreciation | <u>(1,637,985)</u> |
| TOTAL NON-CURRENT ASSETS | <u>7,231,009</u> |
| TOTAL ASSETS | <u>\$ 8,083,004</u> |
| LIABILITIES: | |
| CURRENT LIABILITIES: | |
| Accounts payable | \$ 13,800 |
| Accrued expenses | 324,027 |
| Accrued interest | 12,022 |
| Due to other governmental units | 37,063 |
| Short-term note payable | 14,217 |
| Notes payable within one year | 14,602 |
| Bonds payable within one year | 180,000 |
| TOTAL CURRENT LIABILITIES | <u>595,731</u> |
| NON-CURRENT LIABILITIES | |
| Bonds payable, due in more than one year | 5,380,000 |
| Installment loans payable, due in more than one year | 35,227 |
| Compensated absences | 185,625 |
| School bond loan fund payable | 1,870,906 |
| TOTAL NON-CURRENT LIABILITIES | <u>7,471,758</u> |
| TOTAL LIABILITIES | <u>8,067,489</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | (1,451,951) |
| Restricted for debt service | 1,182,004 |
| Reserved | 41,259 |
| Unreserved | 244,203 |
| TOTAL NET ASSETS | <u>15,515</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 8,083,004</u> |

The accompanying notes to the financial statements are an integral part of this statement.

ADAMS TOWNSHIP SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

| | Program Revenues | | | Governmental Activities |
|---|---------------------|-------------------------|--|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets |
| <u>FUNCTIONS/PROGRAMS</u> | | | | |
| Government Activities: | | | | |
| Instruction and instructional support | \$ 2,320,441 | \$ 340 | \$ 322,030 | \$ (1,998,071) |
| Support services | 1,274,001 | - | - | (1,274,001) |
| School service | 206,660 | 50,124 | 148,556 | (7,980) |
| Athletics | 57,259 | 7,763 | - | (49,496) |
| Interest on long-term debt | 226,838 | - | - | (226,838) |
| Other debt service | 69,335 | - | - | (69,335) |
| Total Governmental Activities | <u>\$ 4,154,534</u> | <u>\$ 58,227</u> | <u>\$ 470,586</u> | <u>(3,625,721)</u> |
| General Revenues: | | | | |
| Taxes | | | | |
| Property taxes, levied for general operations | | | | 300,697 |
| Property taxes, levied for debt service | | | | 420,795 |
| Other taxes | | | | 18,288 |
| State school aid - unrestricted | | | | 2,728,066 |
| Interest and investment earnings | | | | 56,722 |
| Other | | | | 120,101 |
| Transfers | | | | <u>(77,493)</u> |
| Total general revenues and transfers | | | | <u>3,567,176</u> |
| Change in Net Assets | | | | (58,545) |
| Net Assets - Beginning | | | | <u>74,060</u> |
| Net Assets - Ending | | | | <u>\$ 15,515</u> |

The accompanying notes to the financial statements are an integral part of this statement.

ADAMS TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2008

| | General | Debt Service Fund | Other Non-major Governmental Funds | Total Governmental Funds |
|--|-------------------|-------------------------|---|--------------------------------|
| ASSETS: | | | | |
| Cash and cash equivalents | \$ 153,276 | \$ - | \$ 58,917 | \$ 212,193 |
| Investments | - | 1,022,272 | - | 1,022,272 |
| Taxes receivable | 20,400 | 33,882 | - | 54,282 |
| Accounts receivable | - | - | 1,915 | 1,915 |
| Inventory | - | - | 3,651 | 3,651 |
| Due from other governmental units | 578,895 | - | 1,059 | 579,954 |
| Restricted cash | 42,081 | 125,850 | - | 167,931 |
| TOTAL ASSETS | \$ 794,652 | \$ 1,182,004 | \$ 65,542 | \$ 2,042,198 |
| LIABILITIES | | | | |
| Accounts payable | \$ 7,152 | \$ - | \$ 6,648 | \$ 13,800 |
| Accrued expenses | 323,520 | - | 507 | 324,027 |
| Due to other governmental units | 37,063 | - | - | 37,063 |
| Short-term notes payable | 14,217 | - | - | 14,217 |
| TOTAL LIABILITIES | 381,952 | - | 7,155 | 389,107 |
| FUND BALANCES: | | | | |
| Reserved | 37,608 | 1,182,004 | 3,651 | 1,223,263 |
| Unreserved | 375,092 | - | 54,736 | 429,828 |
| TOTAL FUND BALANCES | 412,700 | 1,182,004 | 58,387 | 1,653,091 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 794,652 | \$ 1,182,004 | \$ 65,542 | |

Amounts reported for governmental activities in the statement of net assets are different because:

| | |
|---|------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 6,040,806 |
| Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds. | (7,666,360) |
| Accrued interest is not included as a liability in governmental funds | (12,022) |
| Net assets of governmental activities | <u>\$ 15,515</u> |

The accompanying notes to the financial statements are an integral part of this statement.

ADAMS TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2008

| | General Fund | Debt Service Fund | Other Non-major Governmental Funds | Totals |
|--|-----------------|-------------------------|--|------------|
| REVENUES | | | | |
| Local sources | \$ 377,244 | \$ 472,811 | \$ 90,717 | \$ 940,772 |
| State sources | 2,907,076 | - | 10,762 | 2,917,838 |
| Federal sources | 123,020 | - | 137,794 | 260,814 |
| Total revenues | 3,407,340 | 472,811 | 239,273 | 4,119,424 |
| EXPENDITURES | | | | |
| Instruction | 2,169,367 | - | - | 2,169,367 |
| Supporting services | 1,322,642 | - | - | 1,322,642 |
| Debt service | - | 152,453 | - | 152,453 |
| School service | - | - | 206,660 | 206,660 |
| Athletics | - | - | 52,904 | 52,904 |
| Total expenditures | 3,492,009 | 152,453 | 259,564 | 3,904,026 |
| Excess (deficiency) of revenue over expenditures | (84,669) | 320,358 | (20,291) | 215,398 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating transfers in (out) | (4,905) | - | 4,905 | - |
| Incoming transfers from other districts | 3,200 | - | - | 3,200 |
| Interest payments on loans | (4,867) | - | - | (4,867) |
| Other outgoing transfers | (80,693) | - | - | (80,693) |
| Debt principal payments | (13,946) | (170,000) | - | (183,946) |
| Loan proceeds | 54,058 | 24,569 | - | 78,627 |
| Total other financing sources (uses) | (47,153) | (145,431) | 4,905 | 187,679 |
| NET CHANGE IN FUND BALANCE | (131,822) | 174,927 | (15,386) | 27,719 |
| FUND BALANCES - BEGINNING OF YEAR | 544,522 | 1,007,077 | 73,773 | |
| FUND BALANCES - END OF YEAR | \$ 412,700 | \$ 1,182,004 | \$ 58,387 | |

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|---|--------------------|
| Governmental funds do not record depreciation and report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation | (126,255) |
| Accrued expenses are recorded in the statement of activities when incurred; it is not reported in governmental funds until paid | (69,349) |
| Revenue reported in the statement of activities that does not provide current financial resources and are not reported as revenue in the governmental funds | (24,569) |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) | (133,909) |
| Changes in net assets of governmental activities | <u>\$ (58,545)</u> |

The accompanying notes to the financial statements are an integral part of this statement.

ADAMS TOWNSHIP SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

| | <u>Fiduciary Fund</u> |
|--------------------------|---------------------------|
| ASSETS: | |
| Cash | \$ 73,348 |
| TOTAL ASSETS | <u>\$ 73,348</u> |
| LIABILITIES: | |
| Due to student groups | \$ 29,338 |
| Due to scholarship funds | <u>44,010</u> |
| TOTAL LIABILITIES | <u>\$ 73,348</u> |

The accompanying notes to the financial statements are an integral part of this statement.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Adams Township School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant District accounting policies are described below.

REPORTING ENTITY

Adams Township School District (the "District") is governed by the Adams Township School District Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Numbers 14 and 39.

Excluded from the reporting entity:

Adams Township School District Foundation, Inc.

The potential component unit has a separately elected board and provides assistance with development, implementation, and/or maintenance of educational programs which significantly contribute to the education and personal growth of Adams Township School students. The foundation is excluded from the reporting entity because the District does not have the ability to exercise influence or control over the operations, approve budgets, or provide funding.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues and are reported as general revenues.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted for debt service; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The District does allocate indirect costs.

The government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Other non-major funds:

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service, Athletic Activities and Capital Projects Fund.

Fiduciary Funds - The Trust and Agency Fund is used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund is used to account for assets that the District holds for others in an agency capacity (primary student activities).

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Scholarship Fund is used to account for assets held by the District in a trustee capacity or as an agent for individuals or private organizations designated for scholarship purposes. The Fund distributes the assets according to scholarship requirements.

Fiduciary funds are not included in the government-wide statements.

Accrual Method - The government-wide financials statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

Modified Accrual Method - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is done.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue - The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007. The foundation grant allowance per pupil is calculated as follows:

| | | |
|--|---------------|--------------------|
| 2007-08 Foundation | | \$ 7,204.00 |
| Less Local Support: | | |
| Non-Homestead Tax Value | 17,301,297 | |
| Multiplied by mills | <u>0.018</u> | |
| Total Local Support | 311,423 | |
| Divided by General Education K-12 membership | <u>420.58</u> | |
| Calculated Local Support | | <u>(740.46)</u> |
| Foundation Grant Allowance Per Pupil | | <u>\$ 6,463.54</u> |

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Other Accounting Policies

Deposits - Cash and equivalents include amounts in demand deposits and certificates of deposit.

Property Taxes - Property taxes levied by the District are collected by Adams and Bohemia Townships and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 of each year and are due upon receipt of the billing by the taxpayer and becomes a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

| Fund | Mills |
|---|---------|
| General fund - Non-homestead | 17.6293 |
| Debt service fund - Homestead and non-homestead | 11.45 |

Receivables and Payables - Activity between funds are reported as "due to/from other funds." All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory - Inventory in the District's School Food Service Fund consists of food, a la carte items, and USDA commodities totaling \$3,651. The District utilizes the consumption method of recording inventories of food supplies in the School Food Service Fund. Under the consumption method, inventories are recorded as expenditures when they are used. Inventory is valued at cost.

All other funds utilize the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Capital Assets - Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|-------------------------------|-------------|
| Buildings and additions | 20-50 years |
| Buses and other vehicles | 5-10 years |
| Furniture and other equipment | 5-10 years |

Accrued Benefits - The liabilities for accrued benefits reported in the district-wide statements in the amount of \$185,625, consisted of retirement incentives.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Teachers - The District's contract with the Copper Country Education Association includes a retirement incentive payment to retiring teachers with at least 10 years of service. The minimum benefit is \$4,500 and is increased each 10 years by \$1,500 with a maximum of \$7,500. As of June 30, 2008, there were 18 teachers who qualified for the early retirement incentive, with a potential liability of \$127,500.

Twelve Month Employees - The District's contract with the Adams Township School District Support Personnel Association includes a retirement incentive payment to eligible retiring twelve month employees with at least 10 years of service. The minimum benefit is \$4,500 and is increased each 10 years by \$1,500 with a maximum of \$7,500. As of June 30, 2008, there were six employees who qualified for the early retirement incentive, with a potential liability to the District of \$39,000.

School Year Employees - The District's contract with the Adams Township School District Support Personnel Association MEA/NEA includes a retirement incentive payment to eligible retiring school year employees and teachers with at least 10 years of service. The minimum benefit is \$3,375 and is increased each 10 years by \$1,125 with a maximum of \$5,625. As of June 30, 2008, there were five employees who qualified for the early retirement incentive, with a potential liability to the District of \$19,125.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Reclassification - Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
5. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE C - DEPOSITS AND INVESTMENTS

At year-end, the District's cash deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the District is as follows:

| | Governmental Activities | Fiduciary Funds | Total Primary Government |
|---------------------------------|----------------------------|--------------------|-----------------------------|
| Unrestricted cash | \$ 212,193 | \$ 0 | \$ 212,193 |
| Restricted cash | 167,931 | 73,348 | 241,279 |
| Total cash and cash equivalents | 380,124 | 73,348 | 453,472 |
| Restricted investments | 1,022,272 | 0 | 1,022,272 |
| Total deposits and investments | <u>\$ 1,402,396</u> | <u>\$ 73,348</u> | <u>\$ 1,475,744</u> |

As of June 30, 2008 the District had the following investments:

| Investment Type | Fair Value | Rating |
|---------------------------|--------------------|--------|
| Federal National Mortgage | \$1,006,778 | AAA |
| U.S. Treasury Notes | 15,494 | AAA |
| TOTAL | <u>\$1,022,272</u> | |

Investment and Deposit Risk

Interest Rate Risk – In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements. The District's investments held at year end do not have maturity dates.

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments below. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year end.

Custodial Credit Risk - Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State law does not require and the District does not have a policy for deposit custodial credit risk. As of June 30, 2008, \$180,482 of the District's bank balance of \$554,155 was exposed to custodial credit risk because it was uninsured and collateralized.

Custodial Credit Risk - Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. On the investment listed above, there is no custodial credit risk, as these investment are uncategorized as to credit risk.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk – State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments below. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above and are external investment pools.

Michigan law authorizes the District to deposit and invest in:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bill or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- Certificates of deposits issued by the State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

NOTE D - FIXED ASSETS

Fixed Asset activity of the District's governmental activities was as follows:

| | Balance 06/30/07 | Additions | Deletions | Balance 06/30/08 |
|----------------------------------|---------------------|-------------------|-------------|---------------------|
| Land | \$ 2 | \$ 0 | \$ 0 | \$ 2 |
| Building and additions | 7,046,439 | 0 | 0 | 7,046,439 |
| Improvements other than building | 19,200 | 0 | 0 | 19,200 |
| Equipment and furniture | 157,047 | 54,965 | 0 | 212,012 |
| Vehicles | 28,160 | 0 | 0 | 28,160 |
| School buses | 372,978 | 0 | 0 | 372,978 |
| Subtotal | <u>7,623,826</u> | <u>\$ 54,965</u> | <u>\$ 0</u> | <u>7,678,791</u> |
| Accumulated depreciation: | | | | |
| Building and additions | 1,019,925 | \$ 143,682 | \$ 0 | 1,163,607 |
| Improvements other than building | 3,965 | 960 | 0 | 4,925 |
| Equipment and furniture | 89,829 | 14,664 | 0 | 104,493 |
| Vehicles | 28,160 | 0 | 0 | 28,160 |
| School buses | 314,886 | 21,914 | 0 | 336,800 |
| | <u>1,456,765</u> | <u>\$ 181,220</u> | <u>\$ 0</u> | <u>1,637,985</u> |
| Net capital assets | <u>\$ 6,167,061</u> | | | <u>\$ 6,040,806</u> |

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE D - FIXED ASSETS (Continued)

Depreciation expense was charged to activities of the District as follows:

| | | |
|-------------------------------|----|----------------|
| Governmental activities | | |
| Athletic | \$ | 4,355 |
| Instruction | | 152,574 |
| Operations | | 2,377 |
| Transportation | | 21,914 |
| Total governmental activities | \$ | <u>181,220</u> |

NOTE E - RECEIVABLES

Receivables and due from governmental units at June 30, 2008 that are expected to be collected within one year consist of the following:

| | General Fund | School Food Service | Total |
|---------|-------------------|------------------------|-------------------|
| State | \$ 527,180 | \$ 987 | \$ 528,167 |
| Local | 0 | 1,915 | 1,915 |
| Federal | 51,787 | 0 | 51,787 |
| | <u>\$ 578,967</u> | <u>\$ 2,902</u> | <u>\$ 581,869</u> |

NOTE F - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund activities as of June 30, 2008 are as follows:

| Fund | Transfer Out | Fund | Transfer In |
|----------|-----------------|---------------------|-----------------|
| General | \$ 4,905 | School Food Service | \$ 4,670 |
| Athletic | 0 | Athletic | 235 |
| TOTAL | <u>\$ 4,905</u> | TOTAL | <u>\$ 4,905</u> |

NOTE G - PAYABLES

Accounts payable and accrued liabilities as of June 30, 2008, for the District's individual major funds and non-major funds in the aggregate, are as follows:

| Fund Financial Statements: | General | Non-Major Funds | Total |
|--|-------------------|--------------------|-------------------|
| Accounts payable | \$ 7,152 | \$ 6,648 | \$ 13,800 |
| Salaries payable | 175,205 | 408 | 175,613 |
| Accrued expenses | 148,315 | 99 | 148,414 |
| Total accounts payable and accrued liabilities | <u>\$ 330,672</u> | <u>\$ 7,155</u> | <u>\$ 337,827</u> |

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE H - LONG TERM DEBT

2001 BUILDING AND SITE BONDS - SERIES A

On July 26, 2001, the District issued \$1,860,000 of unlimited tax general obligation bonds to finance the remodeling, refurbishing, and re-equipping the high school; erecting, furnishing, and equipping an addition; developing and improving the site; and acquiring and installing educational technology improvements.

The bond issue (denominations of \$5,000 or multiples thereof) matures as indicated below with interest at varying rates of 4.20% to 5.00% per annum. Interest payments started on May 1, 2002, and are payable semi-annually on November 1 and May 1 as indicated. The bonds are to be both term and serial.

The Bonds, or portions of Bonds in multiples of \$5,000 of this issue maturing in the years 2012 and thereafter, shall be subject to redemption prior to maturity, at the option of the District in such order as the District may determine and by lot within any maturity, on any interest payment date on or after May 1, 2011, at par and accrued interest to the date fixed for redemption.

\$1,400,000 of this bond are being defeased with the 2007 Advance Refunding.

| <u>Fiscal Year</u> | <u>November 1 Interest</u> | <u>May 1 Principal</u> | <u>May 1 Interest</u> | <u>Total</u> |
|--------------------|--------------------------------|----------------------------|---------------------------|---------------------|
| 2008-2009 | \$ 38,350 | \$ 50,000 | \$ 38,350 | \$ 126,700 |
| 2009-2010 | 37,250 | 50,000 | 37,250 | 124,500 |
| 2010-2011 | 36,125 | 1,450,000 | 36,125 | 1,522,250 |
| TOTAL | <u>\$ 111,725</u> | <u>\$ 1,550,000</u> | <u>\$ 111,725</u> | <u>\$ 1,773,450</u> |

2001 BUILDING AND SITE BONDS - SERIES B

On October 9, 2001, the District issued \$2,000,000 of unlimited tax general obligation, Qualified Zone Academy Bonds to finance the remodeling, refurbishing, and re-equipping the high school; developing and improving the site; and acquiring and installing educational technology improvements.

The bond issue (denominations of \$5,000 or multiples thereof) matures as indicated below and bears an interest rate of 0.00% per annum. The Bonds are not subject to redemption prior to maturity. The District is required to make yearly payments starting in 2002 and continuing through 2014 of \$132,319 to a set aside account to be used for the principal payments.

| <u>Fiscal Year</u> | <u>Principal</u> |
|--------------------|---------------------|
| 2011-12 | \$ 95,000 |
| 2012-13 | 635,000 |
| 2013-14 | 635,000 |
| 2014-15 | 635,000 |
| | <u>\$ 2,000,000</u> |

2007 Advance Refunding

On February 6, 2007 the District issued \$3,530,000 of general obligation unlimited tax refunding bonds to advance refund \$3,400,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds will be used to provide for the payment of the principal of, interest on and redemption premium on the 1997 Refunding Bonds and 2001 Building and Site Bonds Series A. The Escrow Fund will be held by an escrow agent and will be used to pay, when due, the principal and interest, and call premiums coming due on the refunded bonds, whether by maturity or by redemption on May 1, 2011.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE H - LONG-TERM DEBT (Continued)

The bond issue matures as indicated below with an interest rate of 4% per annum. Interest payments started on May 1, 2007, and are payable semi-annually on May 1, and November 1 as indicated. The bonds are to be both term and serial.

Optional Redemption: The Bonds or portions of the Bonds in multiples of \$5,000 maturing on or after May 1, 2018, are subject to redemption at the option of the District in such order as the District may determine and by lot within any maturity, on any date occurring on or after May 1, 2017, at par plus accrued interest to the date fixed for redemption.

Mandatory Redemption of Term Bonds: The Bonds maturing on May 1, 2019, May 1, 2024 and May 1, 2031 are term bonds (the "Term Bonds") subject to mandatory redemption, in part, by lot, on the redemption dates and in the principal amounts set forth below and at a redemption price equal to the principal amount thereof, without premium, together with interest thereon to the redemption date. When Term Bonds are purchased by the District and delivered to the Paying Agent for cancellation or are redeemed in a manner other than by mandatory redemption, the principal amount of the Term Bonds affected shall be reduced by the principal amount of the Bonds so redeemed or purchased in order determined by the District.

| Fiscal Year | November 1 Interest | May 1 | | Total |
|----------------|------------------------|-------------------|---------------------|---------------------|
| | | Interest | Principal | |
| 2008-2009 | \$ 68,781 | \$ 68,781 | \$ 130,000 | \$ 267,562 |
| 2009-2010 | 66,181 | 66,181 | 130,000 | 262,362 |
| 2010-2011 | 63,582 | 63,582 | 130,000 | 257,164 |
| 2011-2012 | 60,981 | 60,981 | 185,000 | 306,962 |
| 2012-2013 | 57,281 | 57,281 | 185,000 | 299,562 |
| 2013-2014 | 53,581 | 53,581 | 185,000 | 292,162 |
| 2014-2015 | 49,882 | 49,882 | 200,000 | 299,764 |
| 2015-2016 | 45,881 | 45,881 | 200,000 | 291,762 |
| 2016-2021 | 169,406 | 169,406 | 1,000,000 | 1,338,812 |
| 2021-2026 | 72,024 | 72,025 | 730,000 | 874,049 |
| 2026-2031 | 21,676 | 21,676 | 335,000 | 378,352 |
| | <u>\$ 729,256</u> | <u>\$ 729,257</u> | <u>\$ 3,410,000</u> | <u>\$ 4,868,513</u> |

SCHOOL BOND LOAN FUND

During the year ended June 30, 2008 the District borrowed funds from the Michigan School Bond Loan Fund for the purpose of making principal and interest payments on debt associated with the construction of the District's school. In accordance with Act 108, Public Acts of Michigan, 1961, as amended, the State of Michigan can loan the District funds to make debt payments if, for any reason, the district is unable to pay the principal and interest on bonds when due. During the year ended June 30, 2008 the District borrowed \$24,569 from the school bond loan fund to cover debt payments on the 1997 bond issue. At June 30, 2008, the balance due to the School Bond Loan Fund, including accrued interest of \$472,798 was \$1,870,906.

The loans will be repaid from taxes levied for that purpose. Repayment will commence subsequent to the repayment of the District's 1997 bond issue. However, repayments shall be made earlier if taxes levied and collected in any particular year exceed those required to repay the bonds.

The interest rate associated with loans from the School Bond Loan Fund is established periodically by the State Administrative Board. The rates at June 30, 2008 were 4.25% and 4.38456%.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE H - LONG-TERM DEBT (Continued)

OTHER LONG-TERM DEBT

The District has several installment loans payable which are detailed below.

SCHEDULE OF LOANS PAYABLE

| <u>Purpose of Loan</u> | <u>Date of Issue</u> | <u>Original Amount</u> | <u>Maturity</u> | <u>Interest Rate</u> | <u>Balance 06/30/08</u> |
|------------------------|----------------------|------------------------|-----------------|----------------------|-------------------------|
| 2008 Technology Loan | 2/12/08 | <u>\$ 54,058</u> | 2/12/12 | 3.85% | <u>\$ 49,829</u> |

As of June 30, 2008, the aggregate maturities of loans payable are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|------------------|-----------------|------------------|
| 2008-2009 | \$ 12,910 | \$ 1,692 | \$ 14,602 |
| 2009-2010 | 13,416 | 1,186 | 14,602 |
| 2010-2011 | 13,941 | 661 | 14,602 |
| 2011-2012 | <u>9,562</u> | <u>138</u> | <u>9,700</u> |
| TOTAL | <u>\$ 49,829</u> | <u>\$ 3,677</u> | <u>\$ 53,506</u> |

The following is a summary of the changes in the general long-term debt for the year ended June 30, 2008:

| | <u>Balance June 30, 2007</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance June 30, 2008</u> | <u>Current Portion</u> |
|----------------------|------------------------------|-------------------|-------------------|------------------------------|------------------------|
| 2007 Refunding Bonds | \$ 3,530,000 | \$ 0 | \$ 120,000 | \$ 3,410,000 | \$ 130,000 |
| 2001 Series A | 1,600,000 | 0 | 50,000 | 1,550,000 | 50,000 |
| 2001 Series B-QZAB | 2,000,000 | 0 | 0 | 2,000,000 | 0 |
| Installment Loans | 28,146 | 54,058 | 32,375 | 49,829 | 14,602 |
| School Bond Loan | <u>1,373,539</u> | <u>24,569</u> | <u>0</u> | <u>1,398,108</u> | <u>0</u> |
| | <u>8,531,685</u> | <u>78,627</u> | <u>202,375</u> | <u>8,407,937</u> | <u>\$ 194,602</u> |
| Accrued Interest | 413,971 | 70,849 | 0 | 484,820 | |
| Accrued Benefits | <u>187,125</u> | <u>0</u> | <u>1,500</u> | <u>185,625</u> | |
| TOTAL | <u>\$ 9,132,781</u> | <u>\$ 149,476</u> | <u>\$ 203,875</u> | <u>\$ 9,078,382</u> | |

As of June 30, 2008, the aggregate maturities of long-term debt are as follows:

| <u>Fiscal Year</u> | <u>Interest</u> | <u>Principal</u> | <u>Total</u> |
|--------------------|---------------------|---------------------|----------------------|
| 2008-2009 | \$ 215,954 | \$ 192,910 | \$ 408,864 |
| 2009-2010 | 208,048 | 193,416 | 401,464 |
| 2010-2011 | 200,075 | 1,593,941 | 1,794,016 |
| 2011-2012 | 121,100 | 289,562 | 410,662 |
| 2012-2013 | 114,562 | 820,000 | 934,562 |
| 2013-2014 | 107,162 | 820,000 | 927,162 |
| 2014-2015 | 99,764 | 835,000 | 934,764 |
| 2015-2016 | 91,762 | 200,000 | 291,762 |
| 2016-2021 | 338,812 | 1,000,000 | 1,338,812 |
| 2021-2026 | 144,049 | 730,000 | 874,049 |
| 2026-2031 | <u>435,777</u> | <u>1,733,108</u> | <u>2,168,885</u> |
| | <u>\$ 2,077,065</u> | <u>\$ 8,407,937</u> | <u>\$ 10,485,002</u> |

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE I - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description

The District contributes to the Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, PO Box 30171, Lansing, Michigan 48909, by calling (517) 322-5103 or online at the State of Michigan's web-site: <http://www.michigan.gov/orsschools>.

Funding Policy

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The District was required by the state statute to contribute 17.74% of covered compensation through September 30, 2007 and 16.72% of covered compensation to the Plan for the remainder of the year. The contribution requirements of plan members and the District are established Michigan State statute and may be amended only by action of the State Legislature. The total amount contributed to MPERS for the years ended June 30, 2008, 2007, and 2006, were \$301,598, \$302,622, and \$310,582 respectively, equal to the required contributions for each year.

Other Post Employee Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

- Retirees not yet eligible for Medicare coverage pay an annual amount equal to Medicare Part B premiums.
- Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

NOTE J - RESERVE FUND BALANCES

The Debt Service reserve fund balance is restricted for retirement of debt. Reserve fund balances in the School Food Service Fund is reserved for inventory. General Fund has a reserve fund balance for Library Memorial Funds.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2008

NOTE K - RECONCILIATION OF MDE GRANT REPORTS

The amounts reported as current payments on MDE grant reports prepared by the State of Michigan, reconcile with the federal revenue on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances on page 16 as follows:

| | |
|--|-------------------|
| Total current payments per MDE Reports | \$ 186,775 |
| Less prior year grants | (16,718) |
| MDE receivable | 51,787 |
| Direct Awards: | |
| MiBIs Grant | 2,000 |
| REAP Grant | 25,057 |
| USDA Commodities | 11,913 |
| Total Federal Financial Assistance | <u>\$ 260,814</u> |

The District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2008 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

NOTE L - ECONOMIC DEPENDENCY

The District received approximately 80% of its General Fund revenue from the Michigan Department of Education Membership Allowance. Due to the significance of this revenue source to the District, the District is considered to be economically dependent.

NOTE M - CONTINGENT LIABILITIES

Risk Pool

Adams Township School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Adams Township School District joined together with other school districts currently operating a common risk management and insurance program. Adams Township District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Adams Township School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2008, which can be obtained through the District

NOTE N - PRIOR PERIOD ADJUSTMENT

In the Government-wide Statement of Net Assets reported the 2001 bond issues of \$1,400,000. This amount should have been shown as defeased reducing the bonds payable and off set against the Investment in capital assets, net of related debt. The detailed for the defeased is located in the long term debt note on page 26.

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

ADAMS TOWNSHIP SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2008

| | Budgeted Amounts | | Actual | Variance |
|--|------------------|-------------|--------------|-----------------|
| | Original | Final | (GAAP Basis) | Final to Actual |
| REVENUES: | | | | |
| Local sources | \$ 355,081 | \$ 389,490 | \$ 377,244 | \$ (12,246) |
| State sources | 2,937,370 | 2,912,011 | 2,907,076 | (4,935) |
| Federal sources | 127,200 | 115,472 | 123,020 | 7,548 |
| TOTAL REVENUE | 3,419,651 | 3,416,973 | 3,407,340 | (9,633) |
| EXPENDITURES: | | | | |
| Instruction | 2,086,395 | 2,079,232 | 2,169,367 | (90,135) |
| Supporting services | 1,364,316 | 1,275,155 | 1,322,642 | (47,487) |
| TOTAL EXPENDITURES | 3,450,711 | 3,354,387 | 3,492,009 | (137,622) |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (31,060) | 62,586 | (84,669) | (147,255) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Incoming transfers - other schools | - | - | 3,200 | 3,200 |
| Operating transfers out | (70,000) | (353,625) | (4,905) | 348,720 |
| Interest payments | (30,186) | (15,000) | (13,946) | 1,054 |
| Loan proceeds | - | 298,270 | 54,058 | (244,212) |
| Loan payments | - | (5,000) | (4,867) | 133 |
| Other outgoing transfers | (30,000) | (85,000) | (80,693) | 4,307 |
| Total other financing sources (uses) | (130,186) | (160,355) | (47,153) | (113,202) |
| NET CHANGE IN FUND BALANCE | \$ (161,246) | \$ (97,769) | (131,822) | \$ (260,457) |
| FUND BALANCE - BEGINNING OF YEAR | | | 544,522 | |
| FUND BALANCE - END OF YEAR | | | \$ 412,700 | |

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

ADAMS TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2008

| | Budget | Actual | Variance | 2007 |
|---------------------------------------|------------------|------------------|----------------|------------------|
| REVENUES: | | | | |
| Local sources: | | | | |
| Taxes: | \$ 331,660 | \$ 300,697 | \$ (30,963) | \$ 325,335 |
| Other local sources: | | | | |
| Investment revenue | 5,000 | 21,873 | 16,873 | 20,369 |
| Driver's education fees | 1,000 | 340 | (660) | 7,050 |
| Rentals | - | 3,600 | 3,600 | 3,200 |
| Contributions | 20,000 | 20,000 | - | 561 |
| Miscellaneous | 31,830 | 30,734 | (1,096) | 14,002 |
| Total other local sources | 57,830 | 76,547 | 18,717 | 45,182 |
| Total local sources | 389,490 | 377,244 | (12,246) | 370,517 |
| State sources: | | | | |
| Unrestricted grant - State Aid | 2,741,005 | 2,728,066 | (12,939) | 2,723,211 |
| Restricted grants: | | | | |
| Special Education | 86,598 | 94,129 | 7,531 | 72,252 |
| Vocational education | 3,429 | 3,888 | 459 | 5,258 |
| At-risk | 80,979 | 80,993 | 14 | 86,412 |
| Middle school math | - | - | - | 4,996 |
| Total restricted grants | 171,006 | 179,010 | 8,004 | 168,918 |
| Total state sources | 2,912,011 | 2,907,076 | (4,935) | 2,892,129 |
| Federal sources: | | | | |
| Title I | 66,016 | 66,016 | - | 76,663 |
| Title V | 1,185 | 1,185 | - | 1,200 |
| Title II | 28,762 | 28,762 | - | 29,257 |
| Other federal sources | 19,509 | 27,057 | 7,548 | 25,693 |
| Total federal sources | 115,472 | 123,020 | 7,548 | 132,813 |
| TOTAL REVENUES | 3,416,973 | 3,407,340 | (9,633) | 3,395,459 |
| EXPENDITURES: | | | | |
| Instruction: | | | | |
| Basic program: | | | | |
| Elementary School | 824,804 | 884,960 | (60,156) | 867,200 |
| High School | 935,000 | 944,156 | (9,156) | 863,330 |
| Total basic program | 1,759,804 | 1,829,116 | (69,312) | 1,730,530 |
| Added needs: | | | | |
| Special education - Elementary School | 162,306 | 175,840 | (13,534) | 164,910 |
| Compensatory education | 83,287 | 81,903 | 1,384 | 78,217 |
| At-Risk | 73,835 | 82,508 | (8,673) | 101,939 |
| Total added needs | 319,428 | 340,251 | (20,823) | 345,066 |

ADAMS TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
(Continued)
Year Ended June 30, 2008

| | Budget | Actual | Variance | 2007 |
|---|------------------|------------------|------------------|------------------|
| Total instruction | 2,079,232 | 2,169,367 | (90,135) | 2,075,596 |
| Supporting services: | | | | |
| Pupil: | | | | |
| Guidance | 1,200 | 865 | 335 | 1,794 |
| Instructional staff: | | | | |
| Improvement of instruction | 3,000 | 4,975 | (1,975) | 7,724 |
| Library | 6,800 | 6,582 | 218 | 5,378 |
| Total instructional staff | 9,800 | 11,557 | (1,757) | 13,102 |
| General administration: | | | | |
| Board of education | 73,800 | 71,421 | 2,379 | 58,443 |
| Executive administration | 78,555 | 79,893 | (1,338) | 99,891 |
| Total general administration | 152,355 | 151,314 | 1,041 | 158,334 |
| School administration | | | | |
| Elementary | 152,595 | 155,401 | (2,806) | 139,077 |
| High School | 149,055 | 151,773 | (2,718) | 152,625 |
| Total school administration | 301,650 | 307,174 | (5,524) | 291,702 |
| Business-fiscal services | 79,400 | 83,847 | (4,447) | 86,659 |
| Operation & maintenance | 522,000 | 544,133 | (22,133) | 467,230 |
| Pupil transportation | 208,750 | 213,451 | (4,701) | 191,447 |
| Communications Services | - | 10,301 | (10,301) | - |
| Total supporting services | 1,275,155 | 1,322,642 | (47,487) | 1,210,268 |
| TOTAL EXPENDITURES | 3,354,387 | 3,492,009 | (137,622) | 3,285,864 |
| Excess of revenues over expenditures | 62,586 | (84,669) | 147,255 | 109,595 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Incoming transfers - other schools | - | 3,200 | (3,200) | - |
| Operating transfer out | (353,625) | (4,905) | 348,720 | (6,455) |
| Loan proceeds | 298,270 | 54,058 | 244,212 | - |
| Interest payments on loans | (5,000) | (4,867) | 133 | (96) |
| Other outgoing transfers | (85,000) | (80,693) | 4,307 | (62,446) |
| Loan payments | (15,000) | (13,946) | 1,054 | (15,050) |
| Total other financing sources (uses) | (160,355) | (47,153) | (113,202) | (84,047) |

ADAMS TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
(Continued)
Year Ended June 30, 2008

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> | <u>2007</u> |
|--|--------------------|-------------------|------------------|-------------------|
| Excess (Deficiency) of revenues and other financing sources over expenditures and other financing uses | \$ <u>(97,769)</u> | (131,822) | \$ <u>34,053</u> | 25,548 |
| FUND BALANCE, BEGINNING OF YEAR | | <u>544,522</u> | | <u>518,974</u> |
| FUND BALANCE, END OF YEAR | | <u>\$ 412,700</u> | | <u>\$ 544,522</u> |

ADAMS TOWNSHIP SCHOOL DISTRICT
DEBT SERVICE FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2008

| | <u>2008</u> | <u>2007</u> |
|--|---------------------|---------------------|
| REVENUES: | | |
| Local sources: | | |
| Taxes: | | |
| Current taxes | \$ 420,795 | \$ 432,952 |
| Interest income | 33,728 | 64,084 |
| Other taxes | <u>18,288</u> | <u>7,132</u> |
| TOTAL REVENUES | <u>472,811</u> | <u>504,168</u> |
| EXPENDITURES: | | |
| Interest on bonds | 151,122 | 138,586 |
| Other expense | <u>1,331</u> | <u>44,397</u> |
| TOTAL EXPENDITURES | <u>152,453</u> | <u>182,983</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 320,358 | 321,185 |
| OTHER FINANCING SOURCES (USES) | | |
| Redemption of bond principal | (170,000) | (160,000) |
| SBLF loan proceeds | <u>24,569</u> | <u>137,252</u> |
| TOTAL OTHER FINANCING SOURCES | <u>(145,431)</u> | <u>(22,748)</u> |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | <u>174,927</u> | <u>298,437</u> |
| FUND BALANCE, BEGINNING OF YEAR | <u>1,007,077</u> | <u>708,640</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 1,182,004</u> | <u>\$ 1,007,077</u> |

ADAMS TOWNSHIP SCHOOL DISTRICT
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS

June 30, 2008

| | School Food Service | Athletic | Capital Projects | Totals Memorandum Only | |
|--|------------------------|------------------|---------------------|---------------------------|------------------|
| | | | | 2008 | 2007 |
| ASSETS AND OTHER DEBITS | | | | | |
| Cash | \$ 31,659 | \$ 8,613 | \$ 18,645 | \$ 58,917 | \$ 49,889 |
| Receivables | 291 | 1,624 | - | 1,915 | 20,355 |
| Inventory | 3,651 | - | - | 3,651 | 3,477 |
| Due from other funds | - | - | - | - | 1,433 |
| Due from other governmental units | 1,059 | - | - | 1,059 | 987 |
| TOTAL ASSETS | \$ 36,660 | \$ 10,237 | \$ 18,645 | \$ 65,542 | \$ 76,141 |
| LIABILITIES | | | | | |
| Accounts payable | \$ 3,394 | \$ 3,254 | \$ - | \$ 6,648 | \$ 2,368 |
| Accrued expenses | 507 | - | - | 507 | - |
| TOTAL LIABILITIES | 3,901 | 3,254 | - | 7,155 | 2,368 |
| FUND EQUITY: | | | | | |
| Fund balance - reserved | 3,651 | - | - | 3,651 | 3,477 |
| Fund balance - unreserved | 29,108 | 6,983 | 18,645 | 54,736 | 70,296 |
| | 32,759 | 6,983 | 18,645 | 58,387 | 73,773 |
| TOTAL LIABILITIES AND FUND EQUITY | \$ 36,660 | \$ 10,237 | \$ 18,645 | \$ 65,542 | \$ 76,141 |

ADAMS TOWNSHIP SCHOOL DISTRICT
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
June 30, 2008

| | | | | Totals | |
|---|-------------|-----------|-----------|-----------------|-----------|
| | School Food | | Capital | Memorandum Only | |
| | Service | Athletic | Projects | 2008 | 2007 |
| REVENUES: | | | | | |
| Local sources | \$ 50,353 | \$ 39,472 | \$ 892 | \$ 90,717 | \$ 88,768 |
| State sources | 10,762 | - | - | 10,762 | 14,952 |
| Federal sources | 137,794 | - | - | 137,794 | 121,669 |
| TOTAL REVENUES | 198,909 | 39,472 | 892 | 239,273 | 225,389 |
| EXPENDITURES: | | | | | |
| Salaries | 61,454 | - | - | 61,454 | 58,273 |
| Employee benefits | 46,062 | - | - | 46,062 | 42,373 |
| Supplies, materials, and other | 99,144 | 52,904 | - | 152,048 | 115,001 |
| TOTAL EXPENDITURES | 206,660 | 52,904 | - | 259,564 | 215,647 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (7,751) | (13,432) | 892 | (20,291) | 9,742 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Operating transfers in | 4,670 | 235 | - | 4,905 | 6,455 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES | (3,081) | (13,197) | 892 | (15,386) | 16,197 |
| FUND BALANCE, BEGINNING OF YEAR | 35,840 | 20,180 | 17,753 | 73,773 | 57,576 |
| FUND BALANCE, END OF YEAR | \$ 32,759 | \$ 6,983 | \$ 18,645 | \$ 58,387 | \$ 73,773 |

ADAMS TOWNSHIP SCHOOL DISTRICT
SCHOOL FOOD SERVICE FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2008

| | <u>2008</u> | <u>2007</u> |
|--|------------------|------------------|
| REVENUES: | | |
| Local sources: | | |
| Adult lunches | \$ 4,049 | \$ 2,857 |
| A-La-Carte | 653 | 560 |
| Student lunches | 33,197 | 34,218 |
| Miscellaneous | <u>12,454</u> | <u>10,993</u> |
| Total local sources | <u>50,353</u> | <u>48,628</u> |
| State sources | <u>10,762</u> | <u>14,952</u> |
| Federal sources: | | |
| School lunch program | 125,881 | 110,967 |
| USDA entitlements | 11,913 | 10,661 |
| USDA bonus entitlements | <u>-</u> | <u>41</u> |
| Total federal sources | <u>137,794</u> | <u>121,669</u> |
| TOTAL REVENUES | <u>198,909</u> | <u>185,249</u> |
| EXPENDITURES: | | |
| Salaries | 61,454 | 58,273 |
| Employee benefits | 46,062 | 42,373 |
| Supplies, materials, and other | <u>99,144</u> | <u>77,950</u> |
| TOTAL EXPENDITURES | <u>206,660</u> | <u>178,596</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (7,751) | 6,653 |
| OTHER FINANCING SOURCES (USES) | | |
| Operating transfers in | <u>4,670</u> | <u>4,455</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES | (3,081) | 11,108 |
| FUND BALANCE, BEGINNING OF YEAR | <u>35,840</u> | <u>24,732</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 32,759</u> | <u>\$ 35,840</u> |

ADAMS TOWNSHIP SCHOOL DISTRICT
ATHLETIC FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2008

| | <u>2008</u> | <u>2007</u> |
|--|-----------------|------------------|
| REVENUES: | | |
| Local sources: | | |
| Gate receipts | \$ 7,763 | \$ 6,576 |
| Other | <u>31,709</u> | <u>32,376</u> |
| TOTAL REVENUES | <u>39,472</u> | <u>38,952</u> |
| EXPENDITURES: | | |
| Purchase services | <u>52,904</u> | <u>37,051</u> |
| TOTAL EXPENDITURES | <u>52,904</u> | <u>37,051</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (13,432) | 1,901 |
| OTHER FINANCING SOURCES (USES) | | |
| Operating transfers in | <u>235</u> | <u>2,000</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES | (13,197) | 3,901 |
| FUND BALANCE, BEGINNING OF YEAR | <u>20,180</u> | <u>16,279</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 6,983</u> | <u>\$ 20,180</u> |

ADAMS TOWNSHIP SCHOOL DISTRICT
CAPITAL PROJECTS FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2008

| | <u>2008</u> | <u>2007</u> |
|--|------------------|------------------|
| REVENUES: | | |
| Local sources: | | |
| Interest | \$ 892 | \$ 1,188 |
| EXPENDITURES: | | |
| Buildings and additions | - | - |
| Equipment and furniture | - | - |
| TOTAL EXPENDITURES | - | - |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 892 | 1,188 |
| OTHER FINANCING SOURCES (USES) | | |
| Operating transfers in | - | - |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES | 892 | 1,188 |
| FUND BALANCE, BEGINNING OF YEAR | <u>17,753</u> | <u>16,565</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 18,645</u> | <u>\$ 17,753</u> |

ADAMS TOWNSHIP SCHOOL DISTRICT
TRUST & AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended June 30, 2008

| | Balance July 1, 2007 | Receipts | Disbursements | Balance June 30, 2008 |
|------------------------|-------------------------|-----------|---------------|--------------------------|
| ASSETS: | | | | |
| Cash | \$ 28,684 | \$ 59,592 | \$ 58,938 | \$ 29,338 |
| LIABILITIES: | | | | |
| Due to Student Groups: | | | | |
| Elementary School | \$ 15,198 | \$ 17,852 | \$ 18,954 | \$ 14,096 |
| High School | 13,486 | 41,740 | 39,984 | 15,242 |
| TOTAL LIABILITIES | \$ 28,684 | \$ 59,592 | \$ 58,938 | \$ 29,338 |

ADAMS TOWNSHIP SCHOOL DISTRICT
SCHOLARSHIP FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended June 30, 2008

| | <u>Balance</u> <u>July 1, 2007</u> | <u>Receipts</u> | <u>Disbursements</u> | <u>Balance</u> <u>June 30, 2008</u> |
|-------------------|---------------------------------------|-----------------|----------------------|--|
| ASSETS: | | | | |
| Investments | \$ 44,269 | \$ 2,641 | \$ 2,900 | \$ 44,010 |
| | <u>44,269</u> | <u>2,641</u> | <u>2,900</u> | <u>44,010</u> |
| LIABILITIES: | | | | |
| Scholarship funds | \$ 44,269 | \$ 2,641 | \$ 2,900 | \$ 44,010 |
| | <u>44,269</u> | <u>2,641</u> | <u>2,900</u> | <u>44,010</u> |



Bruce A. Rukkila, CPA, PC

310 Sheldon Avenue • Houghton MI 49931
(906) 482-6601 • Fax: (906) 482-9046
e-mail: help@brucerukkila.com
www.brucerukkila.com



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Adams Township School District
Painesdale, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Adams Township School District as of and for the year then ended June 30, 2008 which collectively comprise the District's basic financial statements and have issued our report thereon dated November 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements is more than inconsequential and will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2008-1 to 2008-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Adams Township School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2008-1 and 2008-4.

We noted certain matters that we reported to management of the Adams Township School District in a separate letter dated November 12, 2008.

The Adams Township School District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Adams Township School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the District Board, others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

November 12, 2008

**ADAMS TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES**

For the Year Ended June 30, 2008

2008-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: All entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and reporting government-wide financial statements, including related footnotes.

Condition: As is the case with many small entities, the District has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls.

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the personnel department, management has made the decision that it is in their best interest to out source the preparation of its annual financial statements to the auditors rather than incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

Effect: As a result of this condition, the District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The District has evaluated the benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the District to out source this task to its external auditors, and to carefully review the draft financials statements and notes prior to approving them and accepting responsibility for their content and presentation. We concur with this decision.

2008-2 – Adjustments Proposed by the Auditor

Criteria: The District is responsible for the reconciliation of all general ledger accounts for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: The auditor identified journal entries to be posted to the District's financial records during the audit. The entries were needed to adjust year-end balances to be in conformity with generally accepted accounting principles.

Effect: We are pleased to assist in adjusting the District's general ledger, but are also required to communicate our part in completing the District's accounting records. A number of these journal entries are related to intergovernmental activities, accounts payable, accounts receivable, and items required for the full-accrual presentation of the government-wide statements.

View of Responsible Officials: The District will ensure all general ledger accounts are reconciled on a timely basis with review and approval by the Board Treasurer.

ADAMS TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2008

2008-3 – Capital Assets Records Maintained by the Auditor

Criteria: Purchases, additions, disposals, and sale of assets must have prior approval from the appropriate officials. In addition, the financial statements must accurately report all capital assets and accumulated depreciation along with capital expenditures and depreciation expense.

Condition, Cause and Effect: The District has relied on its external auditor to maintain and update capital assets. Management has made the decision that it is in their best interest to have their external auditor maintain capital assets and compute depreciation rather than incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

View of Responsible Officials: The District finds it advantageous to apply the auditor's capital asset reports for GASB 34 reporting. Based on the technical depreciation software that is utilized by the auditor, the District has decided to review the capital asset reports on an annual basis and retain them.

2008-4 - Segregation of Duties

Criteria: Management is responsible for establishing and maintaining effective internal controls over financial reporting and safeguarding of the District's assets.

Condition: During the course of the audit, we noted instances where multiple key accounting and financial reporting duties are performed by the same individual that also has access to the general ledger. Examples include (1) the ability to setup new employees and enter payroll information (pay rates, hours, deductions, etc.) (2) the ability to create vendors, enter invoices and print disbursement checks (3) the ability to initiate and enter manual journal entries (4) the duty to perform bank reconciliations.

Cause : Limited staff size creates instances in which conflicting duties are performed by one individual. The District relies solely on its Business Manager for its general ledger accounting functions.

Effect: Due to the inherent lack of segregation of duties, the District has an increased risk that fraud or abuse is not prevented or could be detected in a timely manner. Ideally, no single individual should ever be able to initiate and record a transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and be able to conceal it.

View of Responsible Officials: The District understands it needs to be aware of this situation and has implemented review processes for payroll activities, accounts payable reports, and bank reconciliations. The District will implement a procedure for journal entry review and the review procedures will be formally documented and reviewed by the auditor.



Bruce A. Rukkila, CPA, PC

310 Sheldon Avenue • Houghton MI 49931
(906) 482-6601 • Fax: (906) 482-9046
e-mail: help@brucerukkila.com
www.brucerukkila.com

*Full Service Accounting Firm
for the Western Upper Peninsula*

November 12, 2008

To the Board of Education
Adams Township School District
Painesdale, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Adams Township School District for the year ended June 30, 2008, and have issued our report thereon dated November 12, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated August 12, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material aspects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal controls of the Adams Township School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Adams Township School District's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Audit Findings

Qualitative Aspects of Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Adams Township School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the Adams Township School District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements is current judgments. Management's estimate of the useful lives of fixed assets, used to calculate depreciation, is based on the estimated useful lives of certain classes of assets. We evaluated the key factors and assumptions used to develop the useful lives to determine that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 12, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Adams Township School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Adams Township District School Board and is not intended to be and should not be used for any other purpose.

It has been a pleasure to provide audit services to the Adams Township School District. Management was prepared for the audit, providing us with all supporting documents requested. Management was friendly, conscientious and very helpful.

We appreciate your business, thank you.

Very truly yours,

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

In planning and performing our audit of the financial statements of the Adams Township School District, as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Adams Township School District's internal controls over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

2008-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: All entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and reporting government-wide financial statements, including related footnotes.

Condition: As is the case with many small entities, the Adams Township School District has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls.

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to out source the preparation of its annual financial statements to the auditors rather than incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

Effect: As a result of this condition, the District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The Adams Township School District has evaluated the benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the District to out source this task to its external auditors, and to carefully review the draft financials statements and notes prior to approving them and accepting responsibility for their content and presentation. We concur with this decision.

2008-2 – Adjustments Proposed by the Auditor

Criteria: The District is responsible for the reconciliation of all general ledger accounts for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: The auditor identified journal entries to be posted to the District's financial records during the audit. The entries were needed to adjust year-end balances to be in conformity with generally accepted accounting principles.

Effect: We are pleased to assist in adjusting the District's general ledger, but are also required to communicate our part in completing the District's accounting records. A number of these journal entries are related to intergovernmental activities, accounts payable, accounts receivable, and items required for the full-accrual presentation of the government-wide statements.

View of Responsible Officials: The District will ensure all general ledger accounts are reconciled on a timely basis with review and approval by the Board Treasurer.

2008-3 – Capital Assets Records Maintained by the Auditor

Criteria: Purchases, additions, disposals, and sale of assets must have prior approval from the appropriate officials. In addition, the financial statements must accurately report all capital assets and accumulated depreciation along with capital expenditures and depreciation expense.

Condition, Cause and Effect: The District has relied on its external auditor to maintain and update capital assets. Management has made the decision that it is in their best interest to have their external auditor maintain capital assets and compute depreciation rather than incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

View of Responsible Officials: The District finds it advantageous to apply the auditor's capital asset reports for GASB 34 reporting. Based on the technical depreciation software that is utilized by the auditor, the District has decided to review the capital asset reports on an annual basis and retain them.

2008-4 - Segregation of Duties

Criteria: Management is responsible for establishing and maintaining effective internal controls over financial reporting and safeguarding of the District's assets.

Condition: During the course of the audit, we noted instances where multiple key accounting and financial reporting duties are performed by the same individual that also has access to the general ledger. Examples include (1) the ability to setup new employees and enter payroll information (pay rates, hours, deductions, etc.) (2) the ability to create vendors, enter invoices and print disbursement checks (3) the ability to initiate and enter manual journal entries (4) the duty to perform bank reconciliations.

Cause: Limited staff size creates instances in which conflicting duties are performed by one individual. The District relies solely on its Business Manager for its general ledger accounting functions.

Effect: Due to the inherent lack of segregation of duties, the District has an increased risk that fraud or abuse is not prevented or could be detected in a timely manner. Ideally, no single individual should ever be able to initiate and record a transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and be able to conceal it.

View of Responsible Officials: The District understands it needs to be aware of this situation and has implemented review processes for payroll activities, accounts payable reports, and bank reconciliations. The District will implement a procedure for journal entry review and the review procedures will be formally documented and reviewed by the auditor.